

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE NOTICE OF AN ADJUSTMENT)
OF RATES OF THE SALT RIVER) CASE NO. 8261
WATER DISTRICT)

O R D E R

On June 10, 1981, Salt River Water District ("Salt River") filed its notice with the Commission wherein it proposed to increase its water service rates and charges by \$30,697 annually over normalized test year revenues to become effective July 25, 1981. By Commission Order dated June 18, 1981, the proposed rates and charges were suspended and the application of the rates was deferred for a period of 5 months.

A hearing was held at the Commission's offices in Frankfort, Kentucky, on September 29, 1981. All parties of interest were notified, and there were no intervenors.

COMMENTARY

Salt River is a non-profit water distribution system organized and existing under the laws of the Commonwealth of Kentucky which serves approximately 737 consumers in Bullitt County, Kentucky.

TEST PERIOD

The Commission has accepted the 12-month period ending May 31, 1981, as the test year for the purpose of determining

the reasonableness of the rates and charges proposed herein. Pro forma adjustments have been included where found reasonable and proper for rate-making purposes.

REVENUES AND EXPENSES

Salt River proposed several pro forma adjustments to revenues and expenses as reflected on its comparative income statement. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

1. The Commission has made an adjustment to reduce operating revenues by \$871 to exclude the sales during the test year to a commercial customer no longer being served by Salt River.

2. Salt River submitted a schedule of projected compensation for the year ended May 31, 1982, of \$47,060. The Commission has reduced the pro forma salaries, wages and fees by \$3,900 to \$43,160. Salt River testified that two meter readers included in the schedule of compensation were no longer employed and that the meters would be read by the maintenance employees in the future. Therefore, the projected compensation has been reduced by \$1,200.

The Commission is of the opinion that the monthly fee of \$150 paid to each commissioner of Salt River is excessive and should be reduced to a maximum fee of \$75 per month. In making this determination, the Commission has taken into consideration the fees paid to commissioners of similarly sized water districts, the overall financial condition of Salt River, and the personnel employed including a full-time manager to oversee the day to day

operations of the system. Therefore, the projected compensation has been decreased by \$2,700 annually for rate-making purposes to exclude monthly commissioners' fees in excess of \$75.

3. The Commission has made an adjustment to increase chemicals expense by \$420 based on the unit price of chemicals at the end of the test year and the actual quantities purchased during the test year.

4. Salt River incurred \$1,229 of repairs and maintenance expense during the test year for a new pump and motor. The Commission is of the opinion that these items should be capitalized and depreciated over the useful life of each item. Therefore, repairs and maintenance expense has been decreased by \$1,229 and depreciation expense adjusted accordingly as set out in item 5 herein.

5. The Commission has reduced the test year depreciation expense by \$1,998 to exclude depreciation on contributed property for rate-making purposes. The record herein reflects that contributions in aid of construction from customers amounted to \$69,675 or approximately 16.4 percent of the total cost of water plant in service. It is the opinion of the Commission that a water utility, through its water rates, will generate revenues sufficient to recover all costs in providing service to its customers. However, Salt River should not be allowed to charge its customers for costs it has not incurred, as would be the case if it were allowed depreciation on contributed property.

Based on the adjustment to repairs and maintenance expense to exclude the cost of the new pump and motor, the Commission has

increased depreciation expense by \$246 based on an estimated useful life of 5 years.

6. Legal and accounting fees have been reduced by \$1,100 to exclude \$600 in audit fees which were charged to the test year for a prior period and to exclude \$500 in attorneys fees for preparation and appearance before this Commission in a complaint case which the Commission finds is a non-recurring expense.

7. The Commission has included \$400 in the pro forma adjustments for rate case expense based on estimated cost of this rate case of \$1,200 prorated over a 3-year period.

8. The Commission has excluded other income of \$7,221 from the test year income. This amount included payroll taxes, interest and penalties which were accrued prior to July 1, 1979, and written off during the test year as a credit to other income.

Based on the aforesaid adjustments, Salt River's operating statement appears as follows:

	<u>Actual 5-31-81</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Year</u>
Operating Revenues	\$104,948	\$ (871)	\$104,077
Operating Expenses	99,786	(2,849)	96,937
Net Operating Income	<u>\$ 5,162</u>	<u>\$ 1,978</u>	<u>\$ 7,140</u>
Other Income	7,221	(7,221)	0
Other Deductions	<u>10,640</u>		<u>10,640</u>
Net Income	<u>\$ 1,743</u>	<u>\$ (5,243)</u>	<u>\$ (3,500)</u>

The actual net income for the test year was \$1,743. After taking into consideration the pro forma adjustments, Salt River would incur a net loss of \$3,500.

The Commission is of the opinion that a debt service coverage of 1.2 will be adequate to allow Salt River to pay operating expenses, meet its debt service requirements and maintain a reasonable surplus. The Commission finds that Salt River's operating revenues should be \$123,917 which will require additional revenues of \$19,840 annually. The required increase in operating revenues is computed as follows:

Debt Service Coverage X 1.2	\$ 26,980
(Principal \$13,333 + interest	
\$9,150 X 1.2)	
Add: Adjusted Operating Expenses	96,937
Subtotal	\$ 123,917
Less: Adjusted Operating Expenses	104,077
Increase in Revenues	<u>\$ 19,840</u>

Rate Structure

Salt River's present rates and rate structures are the same for both residential and commercial customers. No change is proposed for the residential rate structure; however, the utility has requested that the commercial rate structure be modified by combining the last three usage blocks so that all usage over 8,000 gallons would be billed at the same rate. Salt River's witness, Jerry Thomas Miller, testified that the proposed rate structure is based on a survey of systems in counties surrounding its service area. The Commission is of the opinion that the proposed change is reasonable and should be approved.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that the rates proposed by Salt River would produce revenues in excess of those found to be reasonable herein and, therefore, should be denied upon application of KRS 278.030.

The Commission further finds that the rates in Appendix A attached hereto are the fair, just and reasonable rates for service rendered by Salt River on and after the date of this Order. These rates will produce annual revenues based on test year sales of approximately \$120,749 and after the addition of \$3,168 of other operating revenues will provide total annual revenues of \$123,917.

IT IS THEREFORE ORDERED that the rates proposed by Salt River are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates in Appendix A, attached hereto, are approved for service rendered by Salt River on and after the date of this Order.

IT IS FURTHER ORDERED that Salt River shall file with this Commission, within 30 days of the date of this Order, its revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 22nd day of December, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

ATTEST:

Katharine Randall
Vice Chairman

Secretary

Jim Carigan
Commissioner

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8261 DATED DECEMBER 22, 1981

The following rates are prescribed for all customers served by the Salt River Water District. All other rates and charges not mentioned specifically herein shall remain the same as those in effect prior to the date of this Order.

Residential

<u>Gallage Block</u>	<u>Monthly Rate</u>
First 3,000 gallons	\$7.90 minimum
Next 5,000 gallons	1.40 per 1,000 gallons
Next 7,000 gallons	1.15 per 1,000 gallons
Next 10,000 gallons	.90 per 1,000 gallons
Over 25,000 gallons	.80 per 1,000 gallons

Commercial

<u>Gallage Block</u>	<u>Monthly Rate</u>
First 3,000 gallons	\$8.50 minimum
Next 5,000 gallons	1.55 per 1,000 gallons
Over 8,000 gallons	1.25 per 1,000 gallons